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ENERGY MARKET REPORT FOR JANUARY 7, 2010

Industry analysts said Iran is unlikely to risk blocking or mining the Strait of Hormuz if tension with the West rises, because it stands to lose oil revenues from closing the strategic waterway and lacks military capability. Iran has threatened to close the waterway if it is attacked over its nuclear program. Analysts believe the threat of Iran blocking the strait is enough to increase oil prices well above \$100/barrel. Analysts say that Iran cannot afford to risk a prolonged disruption of the waterway through which 40% of all seaborne oil trade, about 17 million barrels passes daily. Iran itself exports about 2.4 million bpd, most of it via the Strait of Hormuz.

Trade sources said a large floating stockpile of crude oil in tankers in the North Sea and around northwest Europe has declined over the last month as winter weather and political tensions have increased oil demand. Royal Dutch Shell said this week it sold North Sea Forties grade by ship to ship transfer from

Market Watch

The National Oceanic and Atmospheric Administration said at least moderate El Nino weather conditions are expected to continue through spring in the Northern Hemisphere, leading to continued below normal temperatures in the southeast US through February. It said in the northern tier states, excluding New England, above average temperatures and below average snowfalls are expected.

According to the Labor Department, initial claims for unemployment benefits increased by 1,000 to 434,000 in the week ending January 2nd. The Labor Department revised the initial claims level for the week of December 26th to 433,000 from an originally reported 432,000. The four week average of new claims fell for the 18th consecutive week by 10,250 to 450,250, the lowest level since September 13, 2008. The number of continuing claims fell by 179,000 to 4,802,000. The unemployment rate for workers with unemployment insurance was 3.6%, down 0.2% on the week.

The world's developed economies emerged from a four month brush with deflation in October, a further indication that the world economy is in recovery. Figures released by the Organization for Economic Cooperation and Development showed consumer prices in its 30 members increased by 1.3% in the 12 months to November after increasing by 0.2% in the 12 months to October. Between June and September, developed economies experienced their first collective episode of deflation since the OECD began compiling data in 1971. However the return of inflation is unlikely to lead to an immediate response from the world's leading central banks, which are likely to maintain their interest rates close to record lows for many months to come. In the 12 months to November, energy prices increased 2.4% after declining by 9.2% in October.

China's central bank unexpectedly increased auction yields on three month bills in a move to absorb excessive liquidity. The People's Bank of China is set to drain a net 137 billion yuan or \$20 billion from the market this week as it intensifies the pace of quantitative tightening to rein in excessive liquidity.

The Environmental Protection Agency proposed stronger standards on smog on Thursday. It proposed to set the standard at a level between 0.06 and 0.07 parts per million measured over eight hours.

**January
Calendar Average
CL – \$82.28
HO – \$219.29
RB – \$212.52**

the oil tanker Flandre while other oil companies have been following suit. As a result, only a handful of ships are now storing crude in the North Sea and the volume of crude oil stored at sea worldwide has declined to below 40 million barrels from well above 100 million barrels in the middle of last year. Demand for oil has increased over the last month as freezing weather has moved across Europe and North America.

According to Oil Movements, OPEC’s oil shipments are expected to fall about 2% or 410,000 bpd to 22.70 million bpd in the four weeks ending January 23rd.

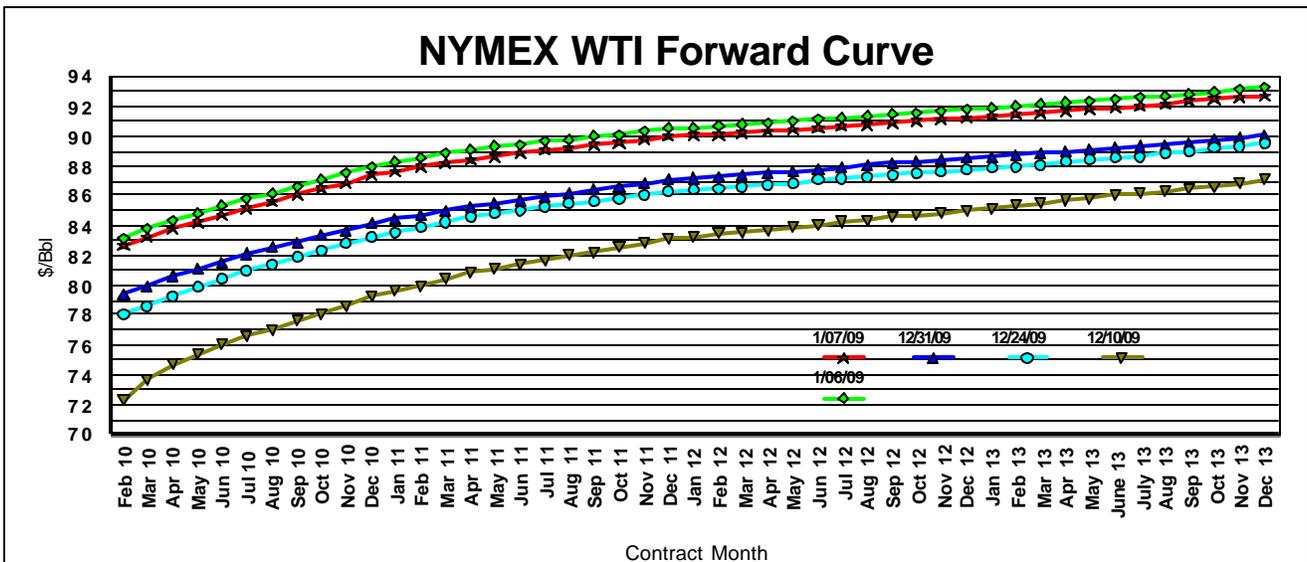
Russia and Belarus broke off talks aimed at resolving a dispute over 2010 oil supply prices on Thursday. Talks are expected to resume on Friday. Russia briefly cut oil supplies to Belarussian refineries in a dispute over pricing that raised the prospect of supply disruptions for European Union customers.

Refinery News

Unusually cold weather is expected to move through southeast Texas from Thursday through Sunday, prompting refineries to take inclement weather precautions. Refineries north of the Gulf Coast typically endure cold spells each winter however those in south Texas rarely face sustained frigid temperatures. A spokesman for BP said the company is preparing its 475,000 bpd refinery in Texas City, Texas. BP is checking insulation around pipes, adding extra sources of heat to lines and instruments that are vulnerable to freeze-ups and maintaining flow of liquids through piping. Meanwhile, ExxonMobil said it prepares its 562,500 bpd refinery in Baytown, Texas and its 348,500 bpd refinery in Beaumont, Texas for winter weather every year similar to preparations for hurricane season. Valero Energy Corp said the same for its Gulf facilities, including its 245,000 bpd Texas City, Texas refinery and its 145,000 bpd Houston, Texas refinery.

ConocoPhillips’ 146,000 bpd refinery in Borger, Texas is restarting its fluid catalytic cracking unit on January 7th. The restart will last from January 7th to January 17th. Separately, ConocoPhillips started planned work on a 145,000 bpd fluid catalytic cracking unit at its 263,000 bpd Bayway refinery in Linden, New Jersey. The unit is expected to remain shut for about three weeks. ConocoPhillips also reported that a fluid catalytic cracking unit at its 257,000 bpd refinery in Belle Chasse, Louisiana was unexpectedly shut on Monday. No reason for the shutdown was provided in a report to state regulators.

BP reported unplanned flaring at its 266,000 bpd Carson, California refinery early Thursday.



Suncor Energy Inc said repairs to a 175,000 bpd upgrading unit damaged in a fire on December 17th are on schedule and production is expected to resume by the end of January or sooner. Suncor estimated that output from its oil sands project site north of Fort McMurray, Alberta would be reduced by 120,000 to 150,000 bpd for the duration of the repairs.

The 300,000 bpd Trans Mountain crude oil and petroleum products pipeline from Alberta to British Columbia will shut in January 27-28 for 30 hours of routine maintenance. Kinder Morgan expects no impact on customers because receipts and shipments can still come storage tanks.

Royal Dutch Shell Plc said it will transform its 130,000 bpd Montreal East refinery into a fuel terminal. It is the latest refinery in North America to close amid weak returns. Shell said the refinery did not fit into its long-term strategy. Shell said the conversion is expected to take about a year, however a Shell spokesman did not know when the plant would stop producing fuels.

ExxonMobil shut several units at its Rotterdam refinery, including a flexicoker and several desulphurization units for maintenance in December. The maintenance is expected to be completed in early March.

Sinopec Corp is expected to increase crude processing at its 270,000 bpd Jinling refinery in January by about 12% on the month to 259,000 bpd. It shut a 50,000 bpd crude oil unit and some other facilities in early December for a month of regular maintenance.

An analyst reported that gas oil inventories stored in independent tanks in the Amsterdam-Rotterdam-Antwerp area in the week ending January 7th increased by 4.76% on the week and by 14.84% on the year to 2.731 million tons. Gasoline stocks increased by 0.86% on the week and by 10% on the year to 935,000 tons while fuel oil stocks increased by 4.35% on the week and by 39.76% on the year to 935,000 tons. Naphtha stocks increased by 27.14% on the week but fell by 23.28% on the year to 89,000 tons while jet fuel stocks increased by 10.25% on the week and by 7.3% on the year to 882,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.802 million barrels to 19.007 million barrels in the week ending January 6th. It also reported that Singapore's light distillate stocks built by 1.658 million barrels to 11.112 million barrels while its middle distillate stocks built by 988,000 barrels to 14.864 million barrels on the week.

Production News

Crude oil exports from Nigeria's Forcados crude stream will be further delayed in February due to lower than expected production. Four cargoes of Forcados crude were scheduled to load in February. Three of those had been delayed from earlier loading dates in January. A Forcados cargo scheduled to load February 1-2 has been rescheduled to load about 10 days later.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said the country plans to begin crude oil shipping operations in March as it prepares to export larger volumes of crude in the future. Iraq this week offered a rare spot crude cargo for delivery to Asian clients. Separately, he said Iraq is likely to switch the benchmark for pricing of its crude exports to the US to a sour crude index from the NYMEX US light sweet crude futures. US refiners are urging Iraq to make the switch to use the Argus Sour Crude Index for pricing, following moves by Saudi Arabia and Kuwait.

Iraq's Foreign Minister Hoshiyar Zebari met his Iranian counterpart Manouchehr Mottaki for talks to try to resolve a dispute over an inactive oil well in a disputed border area. They met in a move to subside tensions between the two countries after a contingent of Iranian troops moved into an oilfield inside

Iraq's territory last month. Iraq's Foreign Minister said the two sides agreed to "normalize border conditions and put back things as they were." Iraqi and Iranian officials are scheduled to meet next week to resolve the border issues.

Kuwait Oil Co said the country will start production from the newly discovered Mutriba oilfield in four years. It previously stated that field could produce 110 million cubic feet/day of gas and 80,000 bpd of oil.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$79.64/barrel on Wednesday, up from Tuesday's \$79.12/barrel.

Market Commentary

Unable to sustain yesterday's strength, crude oil sold off as the dollar rose and China put steps in place to curb bank lending. China, the world's second largest consumer of oil, has experienced an expanding economy, which has boosted the demand for oil. Any slowing of its economy will bring about concerns regarding demand. The weight of the dollar affected most commodities across the board as investors shied away. Recent trading activity can be characterized as confusing, having run-up on Monday, defying bearish inventories on Tuesday and selling off today in response to outside influences. Given the recent surge in prices, this sell-off does not come as a surprise. It is typical for a market that has run up as quickly and sharply as crude oil has, to experience a pause prior to a continuation of the previous move. Fundamentally, we remain bearish on prices but would look for continued investor interest in this market. Crude oil should come back to test the \$82.00 level, where we would look to buy bounces off of this level and sell successful settlements below. We would like to see two straight settlements below this number for confirmation that the trend has reversed itself.

Crude FEB.10 275,043 -5,537 MAR.10 190,543 +9,841 APR. 72,163 12,902 Totals 1,264,706 +33,270 Heating oil FEB 10 97,560 -1,721 MAR.10 56,249 +2,081 APR10 31,905 +1,704 Totals: 321,030 +3,875 Gasoline FEB.10 91,652 -663 MAR. 10 47,686 +2,266 APR10 34,263 +1,128 Totals: 252,085 +5,119.

Crude Support Based on February	Crude Resistance Based on Feb
82.00, 81.60, 80.90, 79.89, 78.50, 77.85, 75.00, 73.50, 72.91, 72.60, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	83.19, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7565	2.2120, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.7900, 1.7200 1.6600	2.1600, 2.2270, 2.3350,

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